March 21, 2002

California Energy Commission
Docket Unit
1516 Ninth Street, MS-4
Sacramento, CA 95814
Docket Number: 99-DIST-GEN-(2)

Re: Draft Outline Comments - Strategic Plan for Distributed Generation

RealEnergy applauds the ongoing leadership role of the California Energy Commission (CEC) with regard to distributed generation (DG) and the role it can and should play in the California energy market. The Strategic Plan is an excellent opportunity not only to bring the many disparate government and market players with a stake in DG to the table, but also to spark a constructive dialogue among stakeholders.

RealEnergy firmly believes that DG in California is currently an untapped resource. As equipment capital costs fall, its potential as an attractive alternative for energy resource, will only increase, as will its legislative support and public popularity. The CEC's Strategic Plan correctly states that at this stage of market development, DG's growth will require a cohesive regulatory scheme and well-defined market operating costs.

Based on our considerable experience in the successful planning, construction, and operation of DG systems throughout the state, we are offering the following recommendations for your review and are hopeful that you will consider including them in future versions of the Strategic Plan.

Tariffs and Demand Charges
RealEnergy suggests that a bullet point be added to the outline, which states, "Do the current (and proposed) tariff rates and the structure of demand charges inhibit the market adoption and widespread deployment of distributed generation?"

One area not addressed in the outline is the interplay of electric tariff rates and demand charge structures on profitable DG deployment. Technology capital costs aside, tariff rates and the structure of demand charges are a crucial issue driving the adoption of DG technology. The Strategic Plan is an excellent place to open a dialogue on these issues, as these issues directly impact monthly operating costs of DG units.

Based on RealEnergy's experience, standby tariffs constitute 15% of monthly operating costs of the natural gas DG technologies, and over 50% for RealEnergy's solar systems. More egregiously, a single day of missed demand charges could consume over *one-half* of a DG technology's monthly revenue. It is well known that if the capital cost to install DG technologies is too high, the rate of market adoption will be low. The same holds true for operating costs.

We hope that the CPUC's jurisdiction to govern utility compensation mechanisms is not stopping the CEC from investigating these two issues in its Strategic Plan. The CPUC does not have a monopoly on forums in which tariff rates and demand charge structures can be debated, particularly when examining of the regulatory frameworks that exist outside California. For example, Texas and Illinois both have DG tariff rates and demand charge structures that make DG far more marketable. The CEC's strategic plan should consider a comparative analysis to truly assess where California stands nationwide while also looking to openly discuss the impacts of current tariff rates and demand charge structures on the market deployment and adoption of DG. RealEnergy believes a healthier balance should be struck between the utilities justified need for compensation and a more open financial environment within which DG can operate. The CEC's strategic plan should be the place where this statewide dialogue begins.

Definition of DG

The definition proposed by the CEC is problematic. The CPUC description only vaguely defines DG, based solely on its relative size. This leaves the matter open to debate, while also failing to draw a more appropriate line between DG and direct access.

The CEC should be willing to go a step further and more narrowly define the term because, at its very core, DG is more than just the size of a given generation unit. It is, ultimately, a demand side response measure to energy market conditions.

Radial and Network Interconnection

RealEnergy is encouraged by the CEC's willingness to bring up this issue. Currently, RealEnergy has successfully navigated interconnection with both radial and networked systems. It is, however, an area that needs further study and one to which RealEnergy would be willing to contribute.

Interconnection Issues

RealEnergy feels the questions posed by the outline on interconnection issues are generally well-reasoned and will be informative once answered. The current work being conducted on interconnection standards, by the Rule 21 working group, has produced important strides, despite the pace of the effort. Much still needs to be done. The yet-to-be-filed Rule 21 Advice Letter/ Compliance Filings and the Utilities' filings on ALJ Cooke's comments from the February 19, 2002 Draft

Decision interpreting Public Utilities Code Section 2827, both point toward a potential lack of commitment by utility management to establish transparent and fair interconnection standards, despite the ongoing efforts of the working group and utility employees

Distribution Design Philosophy and Engineering Studies
As the capital costs for DG technologies drop, so too will consumer patience for interconnection studies; utility customers will continue to demand the ability to install and operate DG. RealEnergy believes that questions four and five of S*ection IV Deployment Issues and Opportunities: Grid Effects Issues*, should be combined because there are, currently, few circumstances in which engineering studies cannot be justified by a utility. Rather, the onus, at this point in the market development, is upon the DG installer/owner/operator to have the technical experience to prove otherwise. This is an expensive transaction cost. It also runs counter to current market trends of decreasing capital costs for DG technologies.

To avoid such a contentious future, RealEnergy believes the CEC's strategic plan should instead pose the question, "How can distribution design philosophy and design tools be modified to accommodate the growing demand for DG so that engineering studies can be eliminated, standardized, or streamlined?"

Environmental Issues
One question the CEC overlooks is whether or not CARB's proposed compliance guidelines for DG, in response to SB 1298, are too onerous. RealEnergy is convinced that they are and if implemented would constitute a serious barrier to entry. RealEnergy would request that the CEC's Strategic plan also investigate this matter as it has a direct impact on the deployment of DG in California.

Conclusion
In conclusion, RealEnergy would like to express its support to the CEC in their attempts to organize and implement this Strategic Plan. We feel it has the potential to benefit all of California.

Sincerely,

Jean Pierre Batmale
Manager – Government Affairs
RealEnergy